

Sujana Metal Products Limited



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16th ANNUAL REPORT 2005

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BOARD OF DIRECTORS	: SHRI Y.S. CHOWDARY, CHAIRMAN SHRI R.K. BIRLA, MANAGING DIRECTOR SHRI G. SRINIVASA RAJU * SHRI S. HANUMANTHA RAO* SHRI J. RAMAKRISHNAN* Dr. K. SRINIVASA RAO (IREDA Nominee) Dr. V. MALAKONDA REDDY* * Independent, Non-Executive Directors
MANAGEMENT COMMITTEE	: SHRI Y.S. CHOWDARY SHRI G. SRINIVASA RAJU SHRI R.K. BIRLA SHRI S. HANUMANTHA RAO
AUDIT COMMITTEE	: SHRI S. HANUMANTHA RAO DR.K. SRINIVASA RAO DR.V. MALAKONDA REDDY
SHARE TRANSFER COMMITTEE	: SHRI Y.S. CHOWDARY SHRI G. SRINIVASA RAJU SHRI R.K. BIRLA
SHAREHOLDERS GRIEVANCES COMMITTEE	: SHRI S. HANUMANTHA RAO SHRI Y.S. CHOWDARY SHRI G. SRINIVASA RAJU
REMUNERATION COMMITTEE	: DR.K. SRINIVASA RAO SHRI J. RAMAKRISHNAN SHRI S. HANUMANTHA RAO
COMPANY SECRETARY	: SHRI S. NAVEEN KUMAR
AUDITOR	: G.V. SURYANARAYANA MURTHI CHARTERED ACCOUNTANT B-166, SANJEEVA REDDY NAGAR, HYDERABAD.
BANKERS	: BANK OF BARODA BANK OF RAJASTHAN LTD INDUSIND BANK LIMITED
FINANCIAL INSTITUTIONS	: IFCI LIMITED IDBI LIMITED
REGISTERED OFFICE	: SURVEY NOs.296/7/9, IDA BOLLARAM, JINNARAM MANDAL, MEDAK DIST, A.P.
WORKS	(i) SURVEY Nos.296/7/9, (ii) PLOT NO.159B & C (iii) PLOT NO.128/A, I.D.A.BOLLARAM, JINNARAM MANDAL, MEDAK DIST, A.P.
LISTING	: HYDERABAD STOCK EXCHANGE LTD 6-3-654, ADJACENT TO ERRAMANZIL BUS STOP, SOMAJIGUDA, HYDERABAD - 500 082. BOMBAY STOCK EXCHANGE LIMITED PHIROZE JEEJEEBHOY TOWERS, DALAL STREET, MUMBAI - 400 001 THE MADRAS STOCK EXCHANGE LTD EXCHANGE BUILDING, P.BOX 183 11, 2ND LINE BEACH, CHENNAI - 600 001.
REGISTRAR & SHARE TRANSFER AGENTS	: M/s. BIGSHARE SERVICES PVT. LTD. G-10, LEFT WING, AMRUTHA VILLE, OPP: YASHODA HOSPITAL RAJ BHAVAN ROAD, SOMAJIGUDA HYDERABAD - 500 082.

SUJANA METAL PRODUCTS LIMITED

Notice of the 16th Annual General Meeting

NOTICE is hereby given that the Sixteenth Annual General Meeting of the members of the Company will be held on Wednesday, 14th December 2005 at Plot Nos.10, 11 & 12, Survey No.172, Bollaram Village, Jinnaram Mandal, Medak District, Andhra Pradesh at 11.30 A.M. to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the audited balance sheet of the Company as at 30th June, 2005 and the profit and loss account for the period ended 30th June, 2005 and the Reports of the Directors and Auditors thereon.
2. To appoint a Director in place of Shri Y.S. Chowdary, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Dr. V. Malakonda Reddy, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint Auditor of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company and to fix his remuneration. The retiring Auditor Shri G.V. Suryanarayana Murthi, Hyderabad, is eligible for re-appointment.

SPECIAL BUSINESS

5. **To consider and if thought fit, to pass with or without modifications, the following resolution as Special Resolution:**

"RESOLVED that in addition to the earlier resolution passed in the 13th Annual General Meeting of the members of the company held on 27.12.2002 and pursuant to the provisions of Section 372A and all other applicable provisions, if any, of the Companies Act, 1956, (including any statutory modification(s) or re-enactment(s) thereof, for the time being in force) and subject to the approval of Public Financial Institutions, Securities and Exchange Board of India (SEBI) and all other concerned authorities, if any and to the extent necessary and such other approvals, permissions and sanctions, as may be necessary and subject to such conditions and modifications as may be prescribed or imposed by any of them while granting such approvals, permissions and sanctions, which may be agreed to, by the Board of Directors of the Company (hereinafter referred to as the "Board") and/or duly authorized Committee

thereof for the time being exercising the powers conferred by the Board, consent of the Company be and is hereby accorded to the Board of Directors and/or duly authorized Committee of the Board, to make any loan to and/or to give any guarantee to and/or to provide security, in connection with a loan made by any other person to or other person by and/or to acquire, by way of subscription, purchase or otherwise the securities of "Padmini Corporation Limited", Chennai, upto an amount of Rs.350.00 Crores (Rupees Three Hundred and Fifty Crores only) (including the existing guarantees given for Rs.269.00 Crores) which exceeds sixty percent of the aggregate of the paid-up capital of the Company and its free reserves or hundred percent of free reserves, whichever is more, but the loans to be made and/or the guarantees to be given or security to be provided and/or the investment to be made together with the existing loans made and/or the guarantees given or security provided and/or investment already made, shall not exceed the amount as specified at any point of time."

"RESOLVED FURTHER that for the above purpose the Board/Committee of the Board be and is hereby authorised to do all such acts, deeds, matters and things as it may in its absolute discretion deem necessary, proper, desirable or expedient."

By Order of the Board

Place : HYDERABAD
Date : 29.10.2005

Y.S. CHOWDARY
Chairman

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY. PROXIES DULY STAMPED AND SIGNED MUST BE DEPOSITED AT THE COMPANY'S REGISTERED OFFICE NOT LESS THAN 48 HOURS BEFORE THE TIME FOR HOLDING THE MEETING.
2. Members/Proxies are requested to bring alongwith them Annual Reports being sent to them.
3. The Share transfer books and Register of Members of the Company will remain closed



during the period from 13.12.2005 to 14.12.2005 (both days inclusive).

4. The Register of Directors' Shareholding maintained under Section 307 of the Companies Act, 1956, will be available for inspection at the venue of the Annual General Meeting of the Company during the Annual General Meeting. The Register of Directors' Shareholding is also available for inspection of the Members at the registered office of the Company, fourteen days before and three days after, the date of the Annual General Meeting of the Company.
5. The registration of share transfers and other related correspondence will be dealt with by the Company at M/s. Bigshare Services Private Limited of Mumbai, having its branch office at G-10, Left Wing, Amruta Ville, Opp: Yashoda Hospital, Raj Bhavan Road, Somajiguda, Hyderabad - 500 082.
6. Explanatory Statement pursuant to the provisions of Section 173(2) of the Companies Act, 1956 is enclosed.
7. The resolution in item no.5 is proposed to be passed by the shareholders by way of exercising the voting by them by postal ballot, for which postal ballot form alongwith instructions and the calendar of events can be found on page nos. 37 & 38.

EXPLANATORY STATEMENT PURSUANT TO THE PROVISIONS OF SECTION 173(2) OF THE COMPANIES ACT, 1956:

Item No. 5

The Company furnished a Corporate Guarantee to Padmini Corporation Limited (Group Company) for securing the LC Facility of Rs.200.00 Crores sanctioned to them by "The State Trading Corporation of India Limited", Chennai.

Section 372A of the Companies Act, 1956 prescribes that the Company can give loan or any guarantee or provide security or acquire or purchase the securities of any other body corporate, upto sixty percent of its paid-up share capital and free reserves, or hundred percent of its free reserves, whichever is more.

Since the Company has already furnished guarantee on behalf of Padmini Corporation Limited for securing

the LC Facility, the post facto approval of the members can be obtained in accordance with proviso to Section 372A of the Companies Act, 1956.

Therefore, your Directors recommend the resolution for your approval.

All the directors, holding shares in the Company may be deemed to be concerned or interested in the above resolution to the extent of the shares held by them or their relatives.

By Order of the Board

Place : HYDERABAD
Date : 29.10.2005

Y.S. CHOWDARY
Chairman

Additional Information

Brief profile of Shri Y.S.Chowdary, Director, who retires by rotation and is eligible for re-election.

Shri Y.S.Chowdary is a Promoter-Director of Sujana Group. He is 44 years old. He holds Bachelor Degree in Mechanical Engineering from Chaitanya Bharathi Institute of Technology, Hyderabad. Further, he holds a Master Degree in Engineering with specialization in Machine Tools from P.S.G. College of Technology, Coimbatore. He has distinguished himself as a technocrat entrepreneur and had played a bigger role in establishing the Sujana Group of Companies. He has been a constant driving force for fostering higher growth amongst all the group companies.

Shri.Y.S. Chowdary has in depth knowledge and a deep insight into the domestic and global steel products industry.

Brief profile of Dr.V.Malakonda Reddy, Director, who retires by rotation and is eligible for re-election.

Dr.V.Malakonda Reddy is an independent and non-executive director of the Company.

He did his Bachelor Degree in Engineering (Civil) from Madras University and did his Masters in Science and also did his Ph.D from Edinburgh University. Later, he worked in various capacities as Jr.Engineer (PWD Govt. of A.P), Lecturer in Osmania University, Assistant Professor in Regional Engineering College, Warangal. He joined the Company as an Independent Director, in the year 1992.

SUJANA METAL PRODUCTS LIMITED

Directors' Report

Dear Shareholders,

Your Directors hereby present the Sixteenth Annual Report together with the Audited Accounts for the financial year 2004-2005 comprising of Twelve (12) months from 01.07.2004 to 30.06.2005.

Company's Performance:

Your Directors hereby report that the Company has achieved a turnover of Rs.70037.20 lakhs upto 30.06.2005, consisting of Twelve (12) months, as against the turnover of Rs. 75393.44 lakhs for the previous year ended 30.06.2004 consisting of Fifteen (15) months. The Net Profit tax for the year ended 30.06.2005 is Rs. 2248.57 lakhs as against Rs. 488.56 lakhs for the period ended 30.06.2004.

The highlights of the financial results are as follows:

(Rs. in Lakhs)

Particulars	2004-05 (12 months)	2003-04 (15 months)
Profit before Depreciation & Interest	4686.52	4445.13
Interest	1438.96	3155.84
Depreciation	999.00	800.73
Profit before tax	2248.57	488.56
Provision for tax-		
Current tax	189.22	37.56
Deferred tax	538.28	291.04
Profit after tax	1521.07	159.96
Prior year adjustments	1499.95	(8.13)
Profit after prior period adjustment	3021.02	151.84
Amount brought forward	1233.58	1081.75
Amount available for appropriation	4254.60	1233.58
Balance carried forward	4254.60	1233.58

Status on Long Term Debt Restructuring

The proposal made by the Company for restructuring of its liabilities has been sanctioned by Stressed Assets Stabilization Fund (SASF), Mumbai vide its letter dated 28.06.2005 by reducing the rate of interest on outstanding loans to 8% P.A. with effect from 01.04.2003, repayment of core principal amount in 40 quarterly installments commencing from October 1, 2006, funding of interest from 01.04.2003 to 30.09.2005 on simple interest basis etc.,

The Board took note of the same in its meeting held on 29.06.2005 subject to the terms and conditions mentioned in their letter dated 28th June, 2005 and requested SASF for modification of certain terms and conditions.

In turn, SASF vide their letter dated 29th October, 2005 agreed in principle for conversion of 50% of the FITL (existing as on date) discounted at 10.25% for NPV into Equity Share Capital of the Company at a price in accordance with the SEBI Guidelines. Balance 50% of FITL shall be converted into 1% CRPS redeemable in 12 quarterly installments co-terminus with principal repayment schedule.

Industrial Relations:

Your directors are happy to report that Industrial Relations have been extremely cordial at all levels throughout the year.

Directors

Shri Y.S.Chowdary and Dr.V.Malakonda Reddy, Directors of the Company, are liable to retire by rotation in the forthcoming Annual General Meeting of the Members of the Company and being eligible offer themselves for reappointment.



The Board deeply regretted the sad demise of Shri V.B.Chadha. The Board placed on record its sincere appreciation for the valuable services rendered by Shri V.B.Chadha during his tenure as a director. Shri V.B.Chadha ceased to be the director with effect from 29.01.2005.

The IDBI Limited vide its Letter No. CSD 53/Nom 8, dated 07.03.2005 has withdrawn the nomination of Shri M.M.Yesaw on the Board of Directors of the Company with effect from 14.03.2005 and cessation of the Directorship of Shri M.M.Yesaw comes into effect from 14.03.2005 and that the sincere appreciation of the valuable services rendered by Shri M.M.Yesaw, as Nominee of IDBI Limited be placed on record.

The IFCI Limited vide its Letter No.IFC/NDC-1/2005 - 8408, dated 16th May, 2005 has withdrawn the nomination of Shri Y.V.Ramesh Naidu on the Board of Directors of the Company with effect from 16.05.2005 and that the sincere appreciation of the valuable services rendered by Shri Y.V.Ramesh Naidu, as Nominee of IFCI Limited be placed on record.

Directors' Responsibility Statement:

The Directors confirm:

- a. that in the preparation of the annual accounts, the applicable accounting standards have been followed and that no material departures have been made from the same;
- b. that they have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period;
- c. that they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- d. that they have prepared the annual accounts on a going concern basis.

Auditor

The Company's Auditor, Shri G.V.Suryanarayana Murthi, Chartered Accountant, will retire at the ensuing Annual General Meeting of the company and being eligible offers himself for re-appointment.

Personnel

Information in accordance with Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 is not applicable.

Human Resource Management

The key resource for your Company is its employees. Your Company has been able to create a favourable work environment that encourages innovation and meritocracy. Your Company has put in place a scalable recruitment and human resource management. The efforts of your Company in the area of employee management and HR practices have been proved effective in Human Resource Management.

Listing of Company's Securities:

Your Company's shares are currently listed on Hyderabad, Bombay and Madras Stock Exchanges.

Issue of Equity Shares/Warrants by way of Preferential Allotment.

Pursuant to the Special Resolution passed by the members of the Company in the Extraordinary General Meeting held on 22nd September, 2005, your Company had successfully completed the issue and allotment of 85,00,000 Equity Shares of Rs. 10/- each at a premium of Rs. 52/- per share aggregating to Rs. 5270 Lakhs and 50,00,000 compulsorily convertible warrants of Rs. 10/- each at a premium of Rs. 52/- per warrant (to be converted into equity at a later date before expiry of 18 months from the date of issue) aggregating to Rs. 3100 Lakhs.

SUJANA METAL PRODUCTS LIMITED

Delisting of Securities:

Delisting of equity shares of the Company from the Hyderabad and Madras Stock Exchanges is in process.

Dematerialization of Shares:

Your Company shares have been made available for dematerialization through the National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL).

Fixed Deposits

The Company has not accepted any fixed deposits and the provisions of Section 58A of the Companies Act, 1956 are not applicable.

Conservation of Energy, Research and Development, Technology Absorption, Foreign Exchange Earnings and Outgo:

The details regarding Energy Conservation, Technology Absorption, Foreign Exchange Earnings and Outgo as required by section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of the particulars in the report of the Board of Directors) Rules, 1988 are given in the Annexure 1 and forms part of this report.

Corporate Governance:

A detailed report on Corporate Governance has been included separately in the Annual Report. A report on Management Discussion and Analysis prepared and attached to the Directors' Report also forms part of this Annual Report.

Explanations to any qualifications in Auditors' Report:

There are no adverse remarks in the Auditors' Report dated 29.08.2005.

Acknowledgements

The Board of Directors of the Company extends their sincere appreciation to the Government, Bankers, Financial Institutions and others for their kind support. On behalf of the company, the Board of Directors thank the Employees for their valuable efforts and the shareholders for their undaunted faith in the company.

By order of the Board

Place : Hyderabad
Date : 29.10.2005

Y.S.Chowdary
Chairman



Annexure - 1

Information as per Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Directors' Report.

A. Conservation of Energy:

- Energy Conservation: To achieve savings in energy consumption, the Company has taken steps to minimize heat loss.
- Additional investment and proposals if any, being implemented for reduction of consumption of energy: NIL
- Impact of the measures at (a) and (b) above for reduction of energy and consequent impact on cost of production: Not Applicable.
- Total energy consumption and energy consumption per unit of production: As per Form A.

B. Technology Absorption:

- Efforts made in technology absorption: As per form B.

C. Foreign Exchange Earnings & Outgo:

- Activities relating to export initiatives taken to increase exports, development of new export markets for products and services and export plans: Making efforts for exports growth.
- Total foreign exchange earned and used: Earned: Rs.20,43,64,707/- and Used: Rs. 1,74,250/-

FORM A (See Rule 2)

A. PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY:

- Electricity - purchased for manufacture of ingots and re-rolled products:

	2004-2005	2003-2004
Units (KWH)	32,48,109	33,87,417
Total amount (Rs.)	16,30,272	1,61,58,141
Rate/units (Rs.)	4.97	4.77

- Coal

Quantity (Tonnes)	3,171.715	3,029.985
Total Cost (Rs.)	74,88,545	62,79,602
Average Rate (Rs.)	2,361.04	2,072.50

B. CONSUMPTION PER TONNE OF PRODUCTION OF RE-ROLLED PRODUCTS:

Electricity (KWH)	105.37	106.50
Coal (Tonnes)	0.230	0.210
Furnace Oil (Liters)	8.72	8.75

SUJANA METAL PRODUCTS LIMITED

FORM - B

Form for disclosure of particulars with respect to Technology Absorption, Research and Development (R&D)

1. Specific areas in which R&D was carried out by the Company:

In view of the changing business / market conditions for the re-rolling industry products and the growing potential for Galvanised Products, we had undertaken an exercise for product re-orientation by extensive profitable product development.

2. Benefits derived as a result of the above R&D:

Due to constant R&D and product development carried out, the Company, during this year, developed and commenced marketing of TMT (Thermo Mechanically Treated) Steel Bars for the Construction Industry. The TMT Bars have superior tensile strength and corrosion resistant compared to conventional CTD Bars.

These TMT bars are being marketed under "Sujana TMT" brand, which is a registered Trade Mark.

3. Future plan of Action:**Rolling Mill**

The Company is in the process of modernizing and expanding the existing Structural Mill, which will enable the Company to manufacture wide variety of Sections, Angles and also expand the existing capacity by an additional 15000 MT per annum.

Tower Division

The Company is in the process of setting up a new Tower Unit with an installed capacity of 1,00,000 MT per annum. This will help the company to become one of the largest player in the manufacture of Telecom & Transmission Towers.

4. Technology Absorption, Adaption and Innovation:

1. Efforts in brief made towards technology absorption, adaption and innovation : NIL
2. Benefits derived as a result of the above efforts e.g. product improvement, cost reduction, product development, import substitution : NIL
3. In case of imported technology (imported during the last five years reckoned from the beginning of the financial year) following information may be furnished : NIL
 - a) Technology imported
 - b) Year of import
 - c) Has technology been fully absorbed

If not fully absorbed, areas where this has not been taken place, reasons there of and future plans of action.

By order of the Board

Place : Hyderabad
Date : 29.10.2005

Y.S.Chowdary
Chairman

Management Discussion & Analysis

1. INDUSTRY STRUCTURE AND DEVELOPMENT:

The Company deals in re-rolled long iron & steel products and power transmission & telecom towers. The favorable change in the prices of Company's Steel Products helped the Company to achieve the turnover of Rs.70037.20 lakhs for the 12 months ended 30.06.05 when compared with the previous year (15 months) turnover of Rs.75393.44 lakhs. The attractive prices of steel products are not limited to India but extend to the Global Market. The demand for steel products is also good in response to the increased activity in the infrastructure sector especially in irrigation, flyovers and bridges as well as in the housing sector.

2. OPPORTUNITIES AND STRENGTHS:

In view of the buoyant steel market across the Globe during 2004-2005, there emerged huge scope for the growth of Steel Products. Ambitious plans of the Central Government especially in the development of Infrastructure and "Power for all by 2012", and also a boom in the Telecom Sector has created enormous market for the products manufactured by our Company. The continuation of boom in Housing Sector has created a huge market for the CTD/TMT bars of the Company. In addition to the above, there is huge export potential of the products manufactured by the Company, especially Power and Telecom Towers.

Over a period, the Company has established its place in the Steel Sector and is emerging as a major player to reckon with, especially in South India, in producing CTD/TMT Bars, Structural Steels and manufacturing of Towers up to 400 KVA. The Company has developed a diversified product portfolio with production of value added products, developing economies of size, higher levels of penetration on account of wider distribution network and also strong institutional customers and technically experienced Human Resources. The Company has got certification of ISO 9001-2000 Certificate.

3. THREATS AND RISKS:

There is severe competition from the other Secondary re-rolling manufactures in unorganized sector and prices are expected to be volatile.

4. BUSINESS OUTLOOK:

Considering the ambitious plans of both State and Central Governments and their involvement in implementing large projects in infrastructure and power Sector and Irrigation in Andhra Pradesh, continuing boom in Housing Sector, we are of the opinion that the medium term outlook is buoyant and encouraging.

However, considering mushroom growth of rolling mills in unorganized sector, the margins can be under pressure.

5. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY:

The Company has established internal control systems and the same are constantly reviewed and improved wherever required. Depending on the changing requirements, Internal Audit Department is strengthened. The Company has implemented the Corporate Governance requirement and the Audit Committee periodically reviews the systems and procedures of the Company.

6. FINANCIAL PERFORMANCE:

The Gross Block as on 30.06.2005 stands at Rs.20409.71 lakhs. The Net Block as on 30.06.05 stood at Rs.15485.04 lakhs.